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SUBJECT: UNCITRAL SECURED TRANSACTIONS NEGOTIATIONS NEARING
COMPLETION

¶1. Summary. Excellent progress was made during the November 2-6 United Nations Commission on International Trade Law (UNCITRAL) Working Group (WG) discussions on a Supplement to the 2007 UNCITRAL Legislative Guide on Secured Transactions ("the Guide") that deals with security rights in intellectual property (IP). Work is expected to be completed at the February 2010 WG session. The Supplement is then expected to be adopted at the next Commission session in July 2010. The WG also discussed the plans of the Secretariat for the International Colloquium on Secured Transactions in Vienna, March, 1-3, 2010, concerning the WG's future work program after completion of the IP Supplement. End Summary.

WG Makes Progress
on Supplement

¶1. WG VI (Secured Transactions) continued its ongoing work on the preparation of a supplement to the 2007 Guide on security rights in IP ("Supplement") in Vienna from November 2-6. At its 40th Session in 2007 UNCITRAL decided that the WG should undertake work on security rights in IP in response to the desire to provide specific guidance to States regarding the appropriate coordination between secured transactions law as reflected in the Guide and IP law. The WG made excellent progress and was able to complete a third reading of the entire draft Supplement. At the conclusion of the session, the WG was of the view that it should be able to complete its work on the draft Supplement at its February 8-12, 2010 session. The WG would then be in a position to submit the Supplement to the Commission for final approval and adoption at its 2010 session.

Special Priority Rights
Issue Resolved

¶2. The WG was able to resolve one of the key remaining issues-whether the Supplement should recommend that the law should provide for special priority rights for acquisition security rights in IP in the same way that the Guide recommends special priority rights for acquisition security rights in tangible assets. Even though the proposal goes beyond U.S. law under Article 9 of the Uniform Commercial Code (which provides such "superpriority" for purchase-money security interests only for security interests in goods), it was agreed that, for the same reasons the Guide provides for an acquisition security right in tangible assets, the Supplement should provide for an acquisition security right in IP or a license of IP whereby the acquisition secured creditor would have priority over competing security rights in the same IP previously granted by the same grantor so long as the acquisition secured creditor follows the applicable procedural requirements set forth in the Guide.

¶3. The WG also decided that the Supplement should not depart from the approach followed in the Guide by providing more favorable rights for acquisition secured creditors with respect to IP than the Guide provides for such secured creditors with respect to tangible assets (and, thus, rejected the suggestion that the "superpriority" of an acquisition security right in IP should extend further to proceeds of that IP than is the case for acquisition security rights in tangible property). A number of States took the position that it was essential for the Guide and Supplement to provide one acquisition financing regime for all types of assets and not to introduce several regimes depending on the type of asset involved—a result that would make the Guide and Supplement very difficult to understand and apply. Moreover, it was pointed out that it would be too risky for the Supplement to adopt an approach for IP that would change the balance established in the Guide after discussions over a long period of time among the interests of the various credit providers and that essentially was not followed in any legal system.

Non-Exclusive Licenses in Ordinary
Course of Business Tackled

¶4. U.S. law under Article 9 of the Uniform Commercial Code provides that a non-exclusive licensee who obtains its license in ordinary course of business takes free of a security interest granted by its licensor. The Guide had previously adopted a recommendation along the lines of U.S. law. Delegates from European countries and some IP stakeholders had argued, however, that the concept of protecting

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"ordinary course licensees" does not exist in IP law and therefore has no place in law governing security rights in IP. Accordingly, the WG accommodated this objection and decided to bring about substantially the same result by a different means. The WG decided that, in the context of IP, the Supplement should supplant the Guide's recommendation with a new recommendation that would implement the results that would be brought about by the Guide, but without use of the term "ordinary course of business." Instead, the Supplement would provide that a non-exclusive licensee that obtains its license in a transaction available to all from a rights holder who has previously granted a security right in the licensed IP (e.g., a consumer who purchases "off the shelf" copies of copyrighted software) may enjoy its rights notwithstanding enforcement of the security right so long as the licensee fulfills all of its obligations on the license contract. While the precise wording of the provision will need to be resolved at the next session, the language will carefully indicate that this provision in no way validates a license that is unauthorized under IP law (e.g., a "pirated" license).

Thorny Issue of Applicable
Law Still to Be Resolved

¶5. The WG also made process on the most difficult remaining conceptual issue concerning the choice of law for security rights in IP. The Guide provides that all issues relating to security rights in intangible property are governed by the law of the State in which the grantor is located. There has been general recognition, however, that this matter needed additional study for security rights in IP. Several rules had been under consideration prior to this meeting, ranging from a pure "lex protectionis" approach pursuant to which all matters relating to security rights in IP would be governed by the State under whose laws the IP is protected, to an approach like that of the Guide, to a variety of "blended" approaches pursuant to which "lex protectionis" would govern some issues while the law of the grantor's location would govern other issues. Several EU countries, along with some IP stakeholders, have argued that the "lex protectionis" should govern all issues concerning security rights in IP (creation, third-party effectiveness, priority, and enforcement of a security right). Others argued that applying the law of the grantor's location to

those matters (the general rule for security rights in intangibles under the Guide) would provide the optimal result, since in typical transactions in which the collateral consists not only of IP rights but also of other intangible rights it would generally result in the application of a single law for all issues. A third option-proposed by the Permanent Bureau of the Hague Conference on Private International Law and supported in principle as a possible solution by the USDEL-would provide a blended approach under which the law of the grantor's location would govern most issues, but the third-party effectiveness and priority of a security right in IP as against a buyer or similar transferee of the intellectual property would be governed by "lex protectionis." At present there is no consensus approach but variations of the blended approach appeared to gain traction at the session, including among some IP stakeholders.

Agenda for 2010
Colloquium Discussed

16. The WG also briefly discussed the upcoming UNCITRAL International Colloquium on Secured Transactions which will be held in Vienna, March 1-3, 2010. The Secretariat stated that the purpose of the Colloquium-consistent with the decision taken by the Commission at its July 2009 session-is to develop a recommendation for a future work program based on the views of governments, international organizations and the private sector. The proposals that will be discussed at the Colloquium include the following:
(a) A supplement to the Guide on security rights in securities not covered by the Convention on Substantive Rules for Intermediated Securities ("UNIDROIT") (i.e., so-called indirectly held securities);

(b) A legislative guide on security rights registries, supplementing the work of UNCITRAL's Legislative Guide on Secured Transactions. (Note. This project might be similar to the project resulting in the recently-adopted OAS model registry regulations. End note.);

(c) A guide on secured financing contracts and agreements, including

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a discussion of the issues that should be addressed in such agreements and a set of rules that would be applicable in the absence of contrary agreement of the parties;

(d) A guide on IP licensing contracts and agreements (the Secretariat stated that this project would need to be conducted jointly with the WIPO Secretariat);

(e) A model law on secured transactions incorporating the recommendations of the Guide and the Supplement on IP; and,

(f) A text on franchising (initially proposed by Mexico) addressing general practices including those relating to trademarks and taking into account the UNIDROIT Model Franchise Disclosure Law.

17. The Commission will take a decision on the future work program for the WG at its July 2010 session in Vienna based upon the recommendations in the Secretariat report of the Colloquium. (Note. The USDEL generally has informally supported the model registry regulations option as the next work program for the WG because it would provide an important framework for implementation of the Guide. The vast majority of countries in the world do not have general registries for secured transactions. End note.)

Comment

18. In initial negotiating sessions, discussions over the text of the Supplement with European delegations and U.S. IP stakeholders were difficult. These delegations and stakeholders repeatedly expressed concern about the effects of the Guide on IP law. However, through close cooperation with U.S. IP stakeholders, including through a series of public meetings, innovative drafting solutions, and with the Supplement nearing completion, negotiations

have moved more quickly and a consensus approach appears to be achievable on all issues. A key point has been to explain to IP stakeholders that the Guide and Supplement defer to and will not interfere with rights established under IP law. USDEL will continue to make this point in the WG to concerned parties.

DAVIES